

Members

Sen. Lawrence Borst, Chairperson
Sen. Lindel Hume
Sen. Thomas Wyss
Rep. Vern Tincher
Rep. Larry Buell



COMMISSION ON STATE TAX AND FINANCING POLICY

LSA Staff:

Diane Powers, Fiscal Analyst for the Commission
James Landers, Fiscal Analyst for the
Commission
Ross Hooten, Attorney for the Commission

Authority: IC 2-5-3-2

Legislative Services Agency
200 West Washington Street, Suite 301
Indianapolis, Indiana 46204-2789
Tel: (317) 233-0696 Fax: (317) 232-2554

MEETING MINUTES¹

Meeting Date: October 23, 2001
Meeting Time: 10 A.M.
Meeting Place: State House, 200 W. Washington St., 125
Meeting City: Indianapolis, Indiana
Meeting Number: 1

Members Present: Sen. Lawrence Borst, Chairperson; Sen. Lindel Hume; Sen. Thomas Wyss; Rep. Larry Buell.

Members Absent: Rep. Vern Tincher.

Call to Order

Senator Lawrence Borst, Chairman, called the first meeting of the Commission on State Tax and Financing Policy to order at 10:10 AM. Senator Borst introduced the Commission members and gave a synopsis of the Commission's history and functions. Senator Borst then moved on to the day's agenda.

Reassessment Issues

Senator Borst recognized Mr. John Laramore, Chairman of the State Board of Tax Commissioners, to update members on the progress of the statewide reassessment. Mr. Laramore distributed a summary handout (see Exhibit 1) to the Commission members and discussed its contents.

Senator Lindel Hume asked if the process was being slowed by the installation of the

¹ Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

reassessment software. Mr. Laramore responded that software certification is ongoing and the timing issue depends on the vendor used. He stated that most of the counties will get the software from two or three large vendors. He also stated that most counties would complete reassessment close to the March 1, 2002 deadline and the few counties that do not will complete reassessment by August 2002 in time to use the new valuations in the 2003 budget process.

Senator Borst asked if there any lawsuits relating to reassessment to be filed against the State Board of Tax Commissioners. Mr. Laramore answered that there were none currently but that there would likely be an announcement about them in the next few weeks. He suggested that the lawsuits would likely be aimed at the shelter allowance. Senator Borst questioned whether the lawsuits would cause a delay in the reassessment. Mr. Laramore said he did not foresee any delays since the presence or absence of the shelter allowance would require only a minor change in assessment software.

Regarding the estimate discussed by Mr. Laramore that reassessment would result in a 13% increase in the tax burden on homeowners, Senator Borst stated that this figure is somewhat deceiving. He suggested that the increase in the tax burden on homeowners could be as high as 25% in some counties and as low as 0% in other counties. Mr. Laramore indicated that the 13% estimate reflects the impact with the shelter allowance and the personal property rule, but that it is an average for the state. Senator Borst recommended that counties publish the high and low numbers in their areas. There were also concerns expressed by members about the shelter allowance and its affect on the final figures. Mr. Laramore said that this issue is not a problem, and would not delay or skew the process. Senator Hume asked what the shift would be in the absence of the shelter allowance. Mr. Laramore indicated that the average increase in the tax burden on homeowners would be between 20% and 25%.

Senator Borst questioned Mr. Laramore about the State Board's current backlog of property tax appeals. Mr. Laramore indicated that the backlog is down to only a few hundred appeals and expects the backlog to be eliminated by next year.

Senator Borst recognized Dr. Larry DeBoer, Legislative Services Agency, to discuss his analysis of the proposed personal property assessment rule. Dr. DeBoer's presentation is reflected in the written report of his analysis that was distributed to Commission members (see Exhibit 2). (The impact of the proposed rule is summarized in the Legislative Services Agency fiscal note that was distributed to Commission members (see Exhibit 3)).

Senator Borst noted that it will be difficult to implement policies to reduce or eliminate the impact of the property tax shift until hard data on the impact of reassessment is available. He also suggested that legislators need to understand the extent of the property tax shift in their areas.

Senator Borst asked Dr. DeBoer whether he is refining his estimates of reassessment's impacts as more current data becomes available. Dr. DeBoer indicated that he is updating data, but at this point he has not changed the impact estimates. Senator Borst then discussed the elimination of the inventory tax, and its burden on businesses.

Senator Borst recognized Mr. Bob Sigalow, Legislative Services Agency, to explain a memorandum on the Agency's property database (see Exhibit 4). Mr. Sigalow outlined current efforts by the Legislative Services Agency to construct the first comprehensive property tax database in Indiana. Mr. Sigalow explained that the database is still under construction but when completed would contain information on every parcel of property in the state. He indicated that the historical data would be in place by the end of this year and that he hoped to provide information from the database for the upcoming legislative session. Senator Borst explained

that the figures from this database will be a very good tool to use in future discussions of reassessment issues.

Bureau of Motor Vehicles (BMV) Fee Increases

Senator Borst recognized Mr. Gary Gibson, Commissioner of the Bureau of Motor Vehicles, to discuss recent changes to the Bureau's fee structure. Mr. Gibson discussed the fee increases and the service improvements on which money from the fee increases would be used. He provided written remarks on this topic to the Commission members (see Exhibit 5).

Representative Larry Buell stated that he was very impressed by the BMV branch in Beech Grove, and that this was expressed to him by many of his constituents. Representative Buell asked why all the license branches can't do such a good job. In response, Mr. Gibson indicated that he knew about the Beech Grove branch and the lack of turnover among the employees is probably one of the main reasons the branch performs so well. He indicated that some of the worst performing branches have extremely high turnover rates.

Senator Borst brought up the issues of multi-lingual services and providing services to illegal immigrants. He asked Mr. Gibson if this was a problem that needed to be addressed by the Legislature. Mr. Gibson pointed out that it is not the BMV's responsibility to determine citizenship status. Mr. Gibson also indicated that there is no requirement for a person to speak English to obtain a driver's license. He stated that a person is just required to provide six pieces of identification to receive a license. Related to this issue, Senator Hume asked whether BMV is making an effort to have an employee in each branch who can communicate with non-English speaking people. Mr. Gibson stated that he has convened a Commission study on this issue and that they are trying to locate bilingual examiners. The BMV at this time just does not have enough. Mr. Gibson indicated that BMV does have an approved list of advocate groups that can come to a license branch and assist employees and customers in translation.

Tobacco Settlement Funds

Senator Borst recognized Ms. Karla Sneegas, Executive Director, Indiana Tobacco Use Prevention and Cessation Executive Board. Ms. Sneegas distributed a table to the Commission members outlining the Board's budget (see Exhibit 6) and explained how the tobacco settlement money is being utilized. Ms. Sneegas explained that the Board's program is in accordance with the "best practices" model of the federal Centers for Disease Control (CDC).

Ms. Sneegas indicated that the Board's statewide media campaign had begun during the prior week and involved television, radio, outdoor, and print advertisements. She explained that an important component of this statewide media campaign was collection of baseline data on several indicators so that the impact of the different programs and media campaigns can be measured. Senator Borst questioned whether the advertising was targeted at a young enough age group. Ms. Sneegas answered that the data has shown that the middle school aged children are the starting point for prevention advertising.

Ms. Sneegas indicated that enforcement program funds were being utilized to hire more excise enforcement officers to ensure that tobacco products are not being sold to underage consumers. In response, Senator Borst asked about the penalties for selling tobacco to underage consumers. Ms. Sneegas pointed out that there is a graduated penalty system that is not very threatening to potential violators. Unlike other states, she indicated that Indiana does not require tobacco vendors to be licensed. She suggested that the threat of revoking a vendor's license to sell tobacco products may be more formidable. Senator Borst agreed that some steps are needed to better prevent the situation and suggested one alternative could be to revoke a violator's retail merchant's certificate.

Next, Ms. Sneegas discussed the community based programs of the Board including the method of allocating funds to community based organizations and the minority based partnerships. She stated that 57% of the Board's funding was going to these programs. Senator Borst inquired as to why funds were being earmarked to minority based partnerships and indicated that the Board should be careful as to the organizations to which this money is allocated. In response, Ms. Sneegas provided an explanation of the reason for the funding line.

Ms. Sneegas described the evaluation and administrative/management components of the Board's budget. As to administration, Ms. Sneegas stated that the Board staff is small. She indicated that the Board currently has seven staff members with offices located in the ISTA Building. She also indicated that the organization has a total of 20 staff lines and that additional people would be hired as the program grows.

She explained that the Board would contract-out the evaluation to an outside vendor. Senator Hume suggested that the evaluation funding (\$3.25 M each year) seemed like a large amount of money. Ms. Sneegas stated that the CDC "best practices" model recommends that 10% of the budget be spent on evaluation efforts, particularly in the first two years of the program. She stated that the outside vendor would provide expertise and an objective evaluation. In addition, she indicated that the evaluation program involves ongoing monitoring efforts.

In regard to the Board's new advertising campaign, Senator Hume also questioned the effectiveness of the "Rick" advertisements.

Expansion of the Sales Tax Base

Senator Borst altered the agenda briefly to recognize Dr. Larry DeBoer, Legislative Services Agency, to discuss the potential fiscal impact of expanding the Sales Tax to selected services. Dr. DeBoer's presentation is reflected in the memorandum on this subject (see Exhibit 7).

Mobile Telecommunications Source Act

Senator Borst recognized Mr. Jim Mundt, Department of State Revenue, to discuss the impact of Preliminary Draft 3472 (see Exhibit 8) relating to mobile telecommunications taxes. Mr. Mundt stated that Indiana currently taxes only intrastate telephone calls and not interstate telephone calls. He explained that the proposal would provide for taxation of wireless telephone calls based on the state where the caller's primary use of the phone services occurs. He indicated that the proposal would bring Indiana into conformance with federal law on this subject, and would make the state's taxation of mobile telecommunications more consistent with other states. Mr. Mundt stated that the Department favors the proposal.

Senator Borst commented that this was a topic that needed to be addressed. He also suggested that internet taxation and the difference in Sales Tax treatment of cable television services and cable internet services potentially may be important issues for Congress in the future.

Exemption of Settlement Income of September 11, 2001 Victims

Senator Borst discussed Preliminary Draft 3477 (see Exhibit 9) to exempt from Indiana taxes September 11th settlement income. Senator Borst stated that people receiving settlement income as a result of the September 11th terrorist attacks would be eligible for the tax break. Senator Borst stated that the bill would apply to any one in this situation who currently resides in the state or who may come to Indiana in the future.

Update of Federal Tax Changes

Senator Borst recognized Ms. Diane Powers, Fiscal Analyst for the Commission to discuss the potential impact of recent changes in the federal Internal Revenue Code. The memorandum was distributed to the Commission members (see Exhibit 10). Ms. Powers indicated that the federal changes focused on provisions affecting the federal adjusted gross income of taxpayer, in particular, areas relating to education expenses and saving and pension and retirement plans. She also indicated that the impact of these changes would be about \$8.2 M in the current fiscal year and almost \$16. 0 in FY 2003, with the impact increasing in subsequent years.

Impact of the Federal Estate Tax Repeal

Senator Borst recognized Mr. Jim Landers, Fiscal Analyst for the Commission to discuss the potential impact of recent federal Estate Tax changes on the Indiana Estate Tax. Mr. Landers presented and explained a memorandum (Exhibit 11) concerning the effects of these federal changes. He indicated that the estimated impacts would occur provided the reference to the Internal Revenue Code in Indiana law is updated. Mr. Landers explained that the Indiana Estate Tax is based on a federal Estate Tax credit which is being phased-out from 2002 to 2005. He indicated that the phase-out would result in declining revenue from the Estate Tax beginning in FY 2003. He stated that the net revenue loss would be about \$8.5 M in FY 2003 and would increase to about \$24.0 M in FY 2007 or FY 2008 once the federal credit is eliminated.

Phase out of the Inheritance Tax

Mr. Landers also distributed and explained a memorandum (Exhibit 12) on the issue of phasing out the Indiana Inheritance Tax. Mr. Landers explained that elimination of the Inheritance Tax has several implications including revenue loss to the state, revenue loss to counties, and potentially state expenditures for county Inheritance Tax replacement provided the replacement provision is not repealed. Mr. Landers indicated that the revenue loss to the state from eliminating the Inheritance Tax would be about \$131.0 M per year, with expenditures for county replacement of about \$7.5 M per year. He also indicated that counties would incur a net revenue loss of about \$4.0 M per year if county replacement payments are made.

Adjournment

There being no further business for the Commission to consider, Senator Borst adjourned the meeting at 12:25 PM.